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TOTAL PETROLEUM (NORTH AMERICA) LTD.

**TOTAL**

Annual Report  
1971





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# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## Annual Report

1971

### ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held at the head office of the Company, 639 Fifth Avenue Southwest, Calgary, Alberta, at 10:00 a.m. on Wednesday, May 10, 1972.

# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## *Facts at a Glance*

	<u>1971</u>	<u>1970</u>
Proven oil and condensate reserves (bbls.) . . . . .	34,447,800	36,201,647
Oil and condensate production (bbls.) . . . . .	1,696,569	1,486,547
Proven gas reserves (M cubic feet) . . . . .	164,575,000	168,872,000
Natural gas sales (M cubic feet) . . . . .	4,128,975	3,847,422
Net land holdings (acres) . . . . .	4,436,335	4,608,843
Crude oil refined (bbls.) . . . . .	11,084,578	10,641,645
Refined product sales (bbls.) . . . . .	14,015,976	12,019,762
Net earnings . . . . .	\$ 2,166,000	\$ 1,841,000
Cash flow from operations . . . . .	7,550,000	6,054,000
Total revenues and other income . . . . .	88,337,000	75,410,000
Working capital . . . . .	14,107,000	13,637,000
Shareholders' equity . . . . .	72,113,000	67,588,000
Total assets . . . . .	134,254,000	125,199,000



# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## DIRECTORS

REID BRAZELL ..... Frankfort, Michigan  
HENRI J. CHAMPIN ..... Paris, France  
F. CAMPBELL COPE ..... Montreal, Quebec  
ETIENNE L. DALEMONT ..... Paris, France  
J. CAMILLE GENTON ..... Paris, France  
JAMES W. GLANVILLE ..... New York, N.Y.  
JOHN S. POYEN ..... Calgary, Alberta  
STEPHEN D. SABOFF ..... Alma, Michigan  
DAVID L. TORREY ..... Montreal, Quebec  
HENRI VAUTRIN \* ..... Paris, France

\*Resigned March 21, 1972. Replaced by Philippe Dunoyer de Segonzac.

## OFFICERS

ETIENNE L. DALEMONT ..... Chairman of the Board  
JOHN S. POYEN ..... President and Chief Executive Officer  
STEPHEN D. SABOFF ..... Executive Vice-President - Refining & Marketing  
BERNARD C. DUVAL ..... Vice-President - Exploration  
STANLEY B. LAING ..... Vice-President - Finance  
WILLIAM G. TUCKER ..... Secretary  
PAUL H. GUTKNECHT ..... Treasurer  
DON W. GODFREY ..... Assistant Secretary  
COLIN S. MACDONALD ..... Assistant Treasurer

*M. Jacquemin*  
*Andre*  
*517/*  
*463-116*

## HEAD OFFICE

639 FIFTH AVENUE S.W.  
CALGARY, ALBERTA, CANADA

## U.S. MAIN OFFICE

EAST SUPERIOR STREET  
ALMA, MICHIGAN 48801

## REGISTRARS

THE ROYAL TRUST COMPANY  
Calgary, Toronto and Montreal, Canada.  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK  
New York, N.Y., U.S.A.

## TRANSFER AGENTS

MONTREAL TRUST COMPANY  
Calgary, Toronto and Montreal, Canada.  
MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK  
New York, N.Y., U.S.A.

## EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE  
MONTREAL STOCK EXCHANGE  
AMERICAN STOCK EXCHANGE

## AUDITORS

PRICE WATERHOUSE & CO.

## PRINCIPAL SUBSIDIARY

TOTAL LEONARD, INC.



# TOTAL PETROLEUM (NORTH AMERICA) LTD.

## PRESIDENT'S REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, it is my pleasure to present herewith the Annual Report and Financial Statements of Total Petroleum (North America) Ltd. and its subsidiaries for the fiscal year ended December 31, 1971.

### Financial

Net income for the year amounted to \$2,166,000 or \$.19 per Common share, up from net income of \$1,841,000 or \$.15 per Common share in 1970. Earnings per share were calculated after deduction of dividends of \$.70 per share in each yearly period on the Company's Preferred Series A shares. The weighted average number of Common shares outstanding was 6,826,777 in 1971 and 6,572,915 in 1970.

In June, 1971, 413,237 Common shares were issued to acquire the \$3,200,000 promissory note of a subsidiary company.

### Exploration and Development

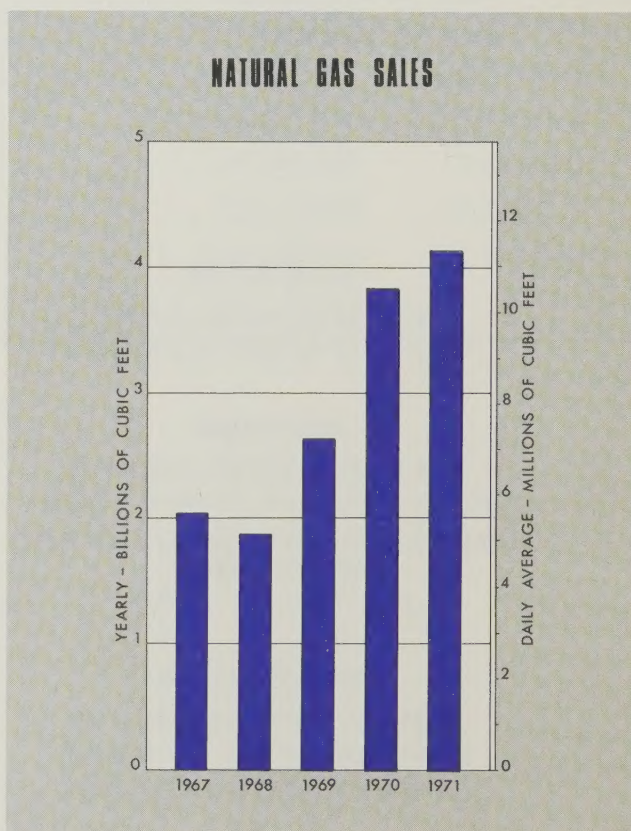
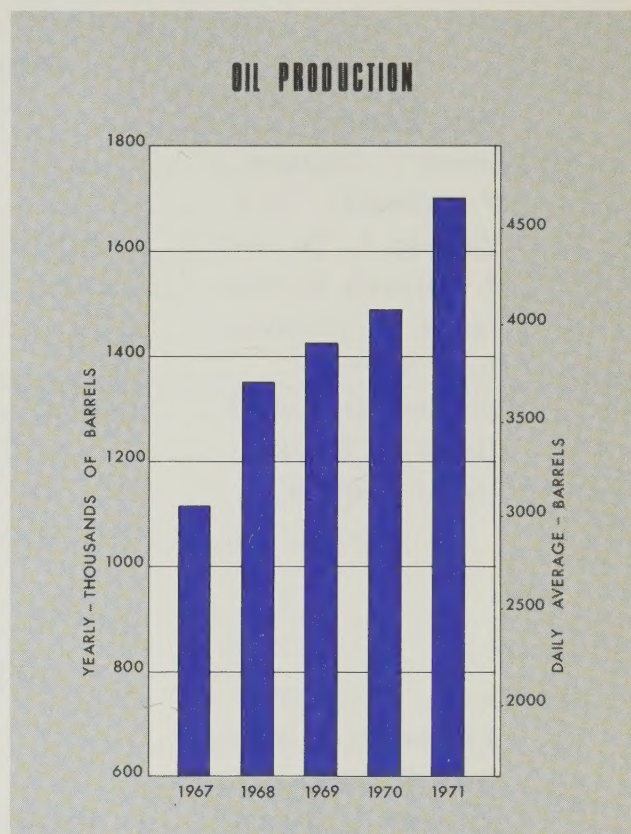
In the exploration and development of its properties during 1971 your Company and its subsidiaries drilled or participated in the drilling of twenty wells and held interests in an additional six farmout wells undertaken by other companies without cost to TOTAL. This drilling program resulted in five oil wells and two gas wells, in which your Company holds varying percentage interests. Four wells were still drilling at year-end.

#### Southern Alberta and Saskatchewan

The successful oil wells were drilled in the Oungre and Enchant areas of Saskatchewan and Alberta, respectively. In addition, a gas well was completed in the Enchant area. To date, a total of six oil wells and one gas well have been drilled in Enchant where the Company's interests range from 6¼ % to 12½ %. The field limits have not yet been established and further development is indicated.

#### Northeastern British Columbia and Alberta Foothills

Two wells which were drilled as follow-ups to the Company's 1970 Mississippian gas discovery in the Grassy area of northeast British Columbia both proved unproductive. Information





from these tests is now being studied to better understand the complex structures and to determine the course of future exploration in this region. In the Varrick area (northwest of Grassy) your Company commenced a 10,700 foot Devonian test at the end of the year to evaluate a 100,000-acre block of farmin lands and permit holdings.

### Michigan

Exploratory drilling in which your Company participated on a pooling basis with two major exploration companies near the end of the year resulted in an indicated Niagaran Reef discovery located in Kalkaska County, Michigan, in which your Company has a net 14.2% interest. The well has in excess of 100 feet of gas condensate pay and testing to date under restricted choke has produced flows of 2.6 million cubic feet of gas and 250 barrels of condensate per day. Your Company holds interests ranging from 50% to 75% in approximately 100,000 acres located along the Niagaran Reef Trends of Michigan on which seismic work was carried out during 1971 resulting in the mapping of many favourable anomalies. Arrangements have been finalized to broaden your Company's exposure on this highly prospective trend through a joint venture agreement with a group of companies possessing excellent technical qualifications and record of accomplishment.

### Frontier Areas

Two more discoveries (one oil and one wet gas) were made during 1971 in the Mackenzie Delta region of the Arctic Slope by the company responsible for the IOE Atkinson H-25 oil discovery in early 1970, and an active drilling program currently being pursued by that company has resulted in another two promising gas and condensate wells since the start of 1972. Your Company's holdings are well situated in the vicinity of these discoveries and, in view of the complexities of the geology of the area, the environmental problems and the very high exploration costs involved, it is fortunate that we are able to benefit by the accumulation of technological and geological information resulting from competitor operations which are increasing in intensity in this area.

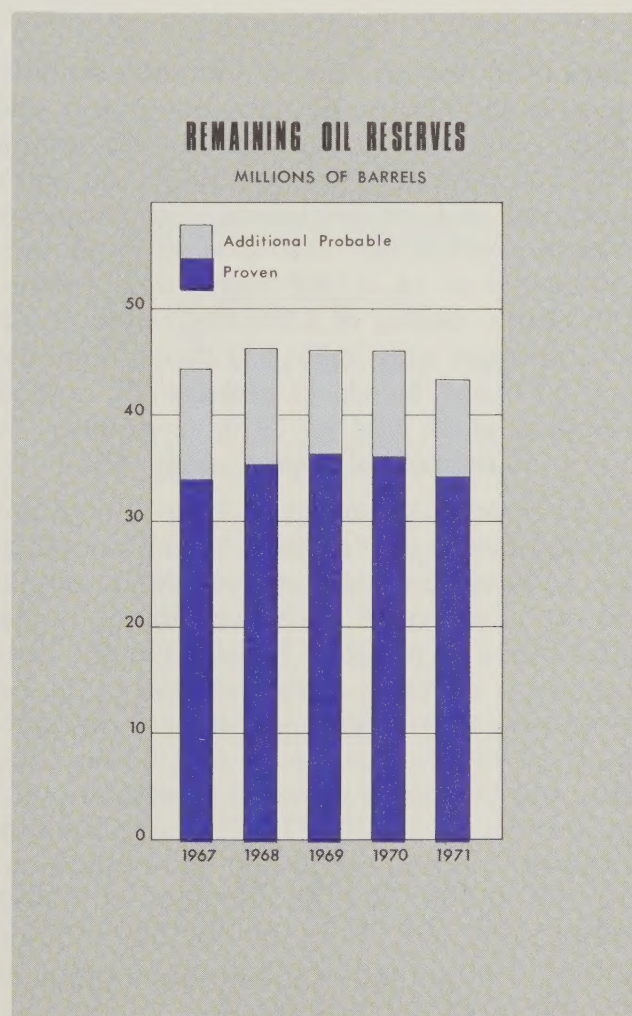
Off the coast of Labrador, where your Company holds 5% interest in exploration permits covering approximately 33 million acres, adverse sea and ice conditions forced suspension of offshore drilling during 1971 before reaching sufficient depth to evaluate prospective beds. East-

can Exploration Ltd. (with a 28 $\frac{1}{3}$ % interest in the play and affiliated with your Company, being a subsidiary of Compagnie Française des Pétroles) has now assumed operatorship of the joint project and is actively assessing the exploration potential of the area, evaluating suitable offshore drilling capabilities, environmental safeguards and engineering technology before further drilling is undertaken.

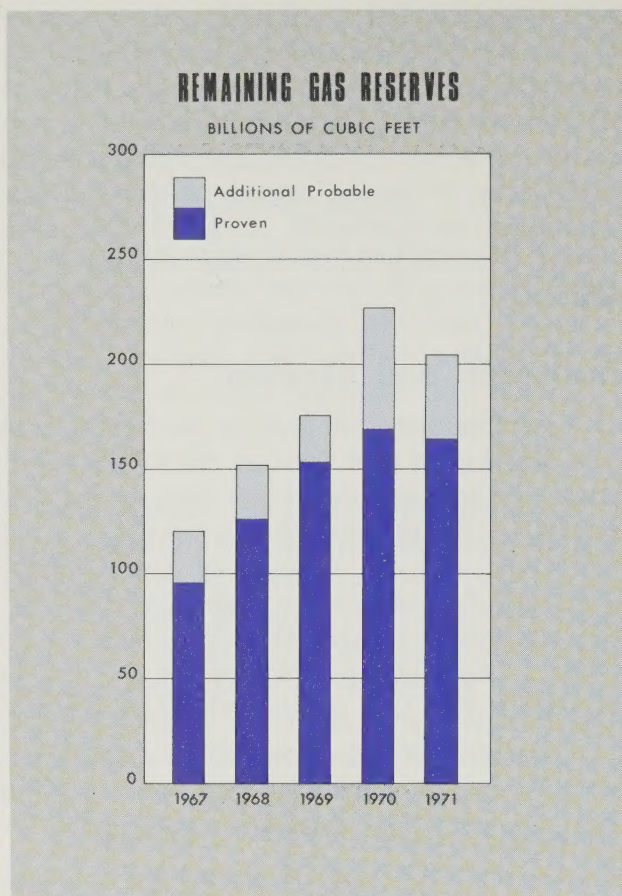
### Production and Reserves

Your Company's oil and gas production totals were both higher than those of the previous year. Crude oil and condensate production for the year totalled 1,696,569 barrels for an average of 4,648 barrels per day, an increase of approximately 14% over the comparative figures for 1970. Natural gas sales increased by slightly over 7% to a total of 4.12 billion cubic feet for the year or an average of 11.31 million cubic feet per day.

A revision of the calculated recoverable reserves in several of the producing areas in which your Company has interests (particularly the







Zama field) has necessitated a downward adjustment in the Company's aggregate proven and probable oil reserves remaining at the end of 1971. As a result, after providing for the year's production of 1,696,569 barrels, your Company's remaining proven oil reserves at year end were estimated to be 34,447,800 barrels with additional probable reserves of 8,953,739 barrels. These totals compare with 36,201,647 barrels of proven and 9,871,416 barrels of probable oil reserves estimated at the end of 1970, representing an aggregate decrease of approximately 6%.

Estimates of remaining gas reserves were also adjusted downward (particularly with respect to the additional probable reserves) due mainly to the fact that results of further drilling in the Grassy area of northeast British Columbia have not as yet increased established reserves to the extent previously anticipated. After making allowance for 1971 production of 4.12 billion cubic feet, your Company's estimated proven developed gas reserves totalled 164.57 billion cubic feet with additional probable reserves of 40.23 billion cubic feet at year end, as compared to 168.87 billion cubic feet of proven and 58.35 billion cubic feet of probable gas reserves estimated at the end of the previous year.

## Refining

Crude oil refined during 1971 set a new record of 11,084,578 barrels. No major turnarounds (shutdowns for maintenance) were scheduled for 1971. Adequate quantities of crude oil were available, while 1970 operations had been penalized by import quotas for Canadian crude oil.

During July, 1971 the Mt. Pleasant, Michigan refinery was closed because it had become uneconomic to operate. This facility produced high quality petroleum chemicals, but declining and shifting markets for the products and increased operating expenses forced the closing. Many employees from the Mt. Pleasant refinery were transferred to company divisions where opportunities for continued employment exist.

Construction of the new Platformer is on schedule so it should be in operation June 1, 1972. The Platforming unit will increase manufacturing capacity of present gasolines by approximately 40%. The new unit will increase the "octane pool" significantly and will enable your Company to manufacture the lead-free gasolines that have been proposed by the United States Environmental Protection Agency. Purchase of gasoline from others will be significantly reduced when the unit is complete. The construction of the new cooling tower was completed which will provide additional cooling water capacity for the new Platformer. Prefractionating facilities will be added to the 25,000 barrels per day Crude Unit to increase crude oil and condensate processing capacity. This equipment should be completed and in operation by September, 1972.

Additional facilities were added as part of your Company's continuing effort to improve the environment. Construction of a waste oil incinerator is near completion and will provide a clean economical method of disposal of certain gas and liquid waste products. A smokeless flare will be constructed in 1972 to serve the refinery and reduce air pollution. TOTAL Leonard again received an "A" rating from the State of Michigan for water pollution control equipment and management.

## Supply and Transportation

Storage capacity was increased by 110,000 barrels at the Detroit terminal, and equipment to allow driver loading of transports was also installed. Similar equipment was installed at the Bay City terminal. Automation of the loading rack operation reduces operating expenses and improves service.



Substantial new reserves of crude oil have been discovered by other companies in Michigan, primarily in the northern portion of lower Michigan. Your Company is a major user of this production which helps to reduce our need for Canadian crude oil. The Company's crude oil supply position is good and the quota for import of Canadian crude oil should be adequate in 1972.

Crude oil costs were substantially higher in 1971, largely because of the Continent-wide well-head price increase of late 1970, and partly because the Canadian dollar has risen to near parity with the U.S. dollar from the \$.925 pegged price prevailing before June, 1970.

## Marketing

### Sales Volume

1971 marked the seventh consecutive year of refined product sales volume increases. Sales increased approximately 2 million barrels, or 16% over the previous year.

Gasoline sales, which account for over 50% of the total refined product sales, increased approximately 36% over 1970. The significant increase in gasoline sales was due primarily to the acquisition of 142 stations in the Detroit metropolitan area in December, 1970.

Sales of aviation fuels, railroad diesel fuels, industrial fuels and asphalts also increased during the past year. Asphalt sales volumes reached an all-time high in the history of your Company.

Sales of petrochemicals and naphthas declined approximately 26% in 1971 with the closing of the Mt. Pleasant refinery in July, 1971. Your Company will continue to market a selected few naphthas that will be refined at the Alma plant.

Marginal service stations continued to be weeded out and replaced by new, better located stations.

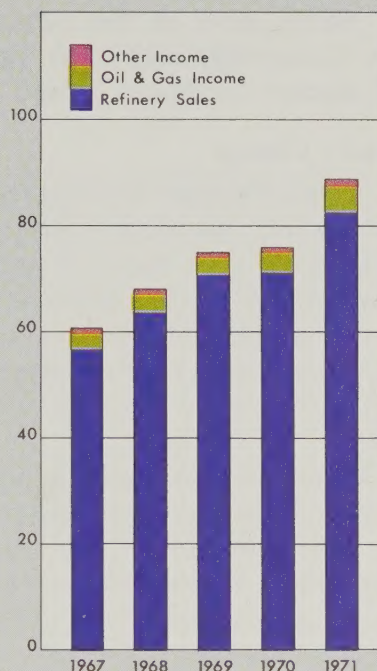
### Product Prices

Gasoline price wars during 1971 continued unabated and extended into many areas previously unaffected by retail gasoline price fluctuations. The Detroit metropolitan area, where the Company sells almost one half of its gasoline, is considered by the petroleum industry to be the most fiercely competitive gasoline market in the country. Allowances to our dealers to enable them to compete, and below normal prices at Company operated stations, cost the Company millions of dollars during 1971.

The bottom of the barrel, asphalts and residual fuels, were a bright spot in dollar realizations during 1971.

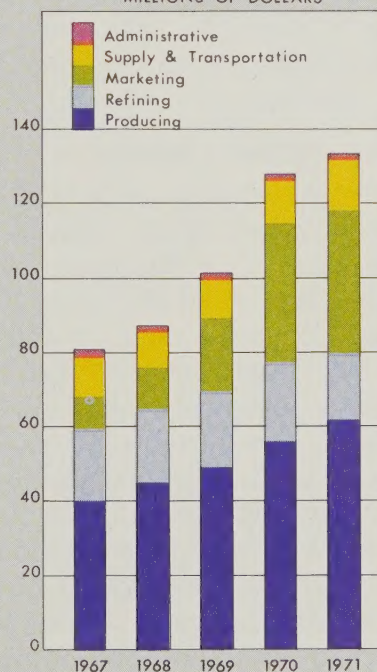
## GROSS INCOME

MILLIONS OF DOLLARS



## GROSS INVESTMENT

In Property, Plant and Equipment at Cost  
MILLIONS OF DOLLARS





### **Wage and Price Freeze**

Neither Phase 1 nor Phase 2 of President Nixon's wage and price freeze affected the Company's operations adversely. Gasoline prices were at "normal" during most of the base period, therefore the Company could raise prices to that level if market conditions should permit.

### **Brand Name Change**

"TOTAL", your Company's new brand name, was very successfully introduced during 1971. The first "TOTAL" signs appeared in Detroit with the changeover of the 142 acquired stations and the 75 existing stations in the Detroit metropolitan area. Changeover in the remainder of the State was completed at the end of August, 1971.

TOTAL Low Lead, an anti-pollution gasoline, was introduced concurrently with the brand name change. This new gasoline, although priced below regular grade, meets all current recommended anti-pollution requirements for automotive fuels.

### **Self-Service**

Your Company is operating the first self-serve station in Michigan on a special test permit issued by the Michigan State Fire Marshal on September 28, 1971. Self-serve gasoline dispensing is now legal in approximately 37 states and we expect that self-service will be legalized in Michigan during 1972. Test studies show that many motorists like the "save time — save money" concept offered by self-service. Service station labor expenses are reduced substantially in self-service stations. TOTAL Leonard plans to expand self-service operations when the law permits.

### **Advertising and Sales Promotion**

During 1971 Advertising and Sales Promotion activities were directed to the introduction of "TOTAL" in the state of Michigan. This introduction required identification changes for more than 600 stations located throughout the state. Our advertising theme featured "TOTAL" as "The International Gasoline", and to tie in with our international image free world maps were distributed with a minimum gasoline purchase. Full-page newspaper ads announced the arrival of "TOTAL", supported with a heavy concentration of television and radio commercials. Station display materials also conveyed the international image with travel stickers affixed to all station gasoline pumps. In addition, following the free world map offer, a series of miniature flags of the world were given to customers to continue

the international theme. A "TOTAL" credit card promotion was an integral part of the brand change, resulting in a 200% increase in credit card accounts. Dealer enthusiasm was high and sales volumes increased under the new sign.

In November your Company again sponsored the "TOTAL" international Press On Regardless Road Rally conducted by the Detroit Region Sports Car Club of America. Entries were received from throughout the United States, Canada, and the United Kingdom. The 1971 rally was conducted on three successive nights over a 1500 mile course. As in past years, the event was a challenge to the driving teams. The rally received a great deal of publicity on television, radio and in newspapers. This is the second year the rally has been sanctioned as an international Rally. Due to the success and performance of this event the 1972 rally has been sanctioned as a World Championship. This is the first U.S. rally to win such recognition and puts it in the same grouping as the Monte Carlo Rally held in Europe.

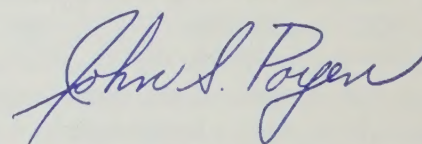
### **General**

At a meeting of the Board of Directors held on November 23, 1971, Mr. Reid Brazell (who at the request of the Board had stayed beyond normal retirement) retired from the offices of Chairman of the Board and Chief Executive Officer, although continuing as a director of the Company. At the same meeting, Mr. Etienne L. Dalemont was elected Chairman of the Board and Mr. John S. Poyen was elected President and Chief Executive Officer of the Company.

On behalf of the officers, employees and shareholders of the Company, the directors wish to express their gratitude and appreciation for the very valuable service and leadership rendered by Mr. Brazell since the merger of Total Petroleum and Leonard Refineries, Inc. in 1970 as well as during his 35 years with Leonard prior to the merger.

Your directors wish also to express their appreciation of the efforts of the Company's employees, the support of the shareholders and the continued loyalty and confidence accorded to the Company by its customers during the past year.

Submitted on behalf of the  
Board of Directors



March 30, 1972.

President



## FIVE YEAR STATISTICAL REVIEW

	1971	1970	1969	1968	1967
<b>OPERATION</b>					
Proven Oil and Condensate Reserves (bbls.) . . . .	34,447,800	36,201,647	36,729,033	35,771,142	34,094,411
Probable Oil Reserves (bbls.) . . . . .	8,953,739	9,871,416	9,536,524	10,683,678	10,555,002
Oil and Condensate Production (bbls./year) .	1,696,569	1,486,547	1,421,357	1,351,430	1,114,339
Proven Gas Reserves (Thousands of Cu. Ft.) .	164,575,000	168,872,000	153,454,000	126,689,000	96,980,000
Probable Gas Reserves (Thousands of Cu. Ft.) .	40,230,000	58,359,000	22,040,000	25,916,000	23,743,000
Natural Gas Sales (Mcf/year) . . . . .	4,128,975	3,847,422	2,636,178	1,873,821	2,041,339
Gross Land Holdings (acres) . . . . .	38,615,713	38,493,422	110,971,379	110,864,874	8,957,427
Net Land Holdings (acres) . . . . .	4,436,335	4,608,843	8,599,946	8,424,542	2,956,728
Crude oil run to stills (barrels) . . . . .	11,084,578	10,641,645	10,657,527	10,693,798	9,998,805
Refined product sales (barrels) . . . . .	14,015,976	12,019,762	11,811,619	10,830,690	10,045,524
Service stations owned or leased long term . . . .	330	342	197	220	231
Total outlets . . . . .	918	905	767	750	756
<b>FINANCIAL (U.S. Dollars)</b>					
Total Revenues . . . . .	\$88,337,000	\$75,410,000	\$75,181,000	\$68,108,000	\$60,574,000
Cash flow from operations .	\$ 7,550,000	\$ 6,054,000	\$ 6,211,000	\$ 6,142,000	\$ 5,403,000
Net Income . . . . .	\$ 2,166,000	\$ 1,841,000	\$ 2,493,000	\$ 2,829,000	\$ 2,512,000





Areas in which Total holds  
Oil & Gas Rights







## Auditors' Report

TO THE SHAREHOLDERS OF  
TOTAL PETROLEUM (NORTH AMERICA) LTD.

We have examined the consolidated balance sheets of Total Petroleum (North America) Ltd. and its subsidiaries as of December 31, 1971 and 1970 and the related statements of consolidated income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1970 financial statements of certain subsidiaries which aggregated 62%, 95% and 39%, respectively, of 1970 total assets, revenues and net income. These statements were examined by other independent accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in 1970 for such subsidiaries, is based solely upon such report.

In our opinion, based on our examinations and the 1970 report of other independent accountants referred to above, the accompanying consolidated financial statements present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1971 and 1970, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Detroit, Michigan  
February 15, 1972

*PricewaterhouseCoopers*



**TOTAL PETROLEUM (NORTH AMERICA) LTD.**  
AND SUBSIDIARIES

**Consolidated Statements of Income  
and Retained Earnings**

(United States dollars)

<b>INCOME</b>		Year ended December 31	
		<u><b>1971</b></u>	<u><b>1970</b></u>
Revenue:			
Net sales of refined products . . . . .		\$83,000,000	\$71,323,000
Net sales of crude oil and natural gas . . . . .		4,570,000	3,637,000
Other income . . . . .		767,000	450,000
		<u>88,337,000</u>	<u>75,410,000</u>
Expenses:			
Purchased crude oil, products and merchandise . . . . .		54,273,000	44,214,000
Operating . . . . .		11,765,000	11,865,000
Marketing and administrative . . . . .		13,620,000	11,065,000
Depreciation, depletion and amortization . . . . .		5,395,000	4,397,000
Interest on long term debt . . . . .		3,061,000	1,473,000
Other interest . . . . .		324,000	388,000
United States income taxes (Notes 1 and 4) . . . . .		(2,267,000)	167,000
		<u>86,171,000</u>	<u>73,569,000</u>
Net income for the year . . . . .		<u>\$ 2,166,000</u>	<u>\$ 1,841,000</u>
Net income per Common share (Note 6) . . . . .		<u>\$.19</u>	<u>\$.15</u>
<b>RETAINED EARNINGS</b>			
Balance, beginning of year . . . . .		\$11,477,000	\$10,414,000
Net income for the year . . . . .		2,166,000	1,841,000
		<u>13,643,000</u>	<u>12,255,000</u>
Deduct —			
Dividends on Series A Preferred shares . . . . .		863,000	217,000
Dividends on shares of Total Leonard, Inc. prior to merger . . . . .		—	561,000
		<u>863,000</u>	<u>778,000</u>
Balance, end of year . . . . .		<u>\$12,780,000</u>	<u>\$11,477,000</u>



TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

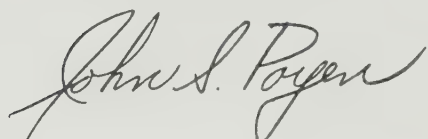
(United States dollars)

Assets

December 31

	<u>1971</u>	<u>1970</u>
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 3,072,000	\$ 5,161,000
Short term investments, at cost . . . . .	1,867,000	2,912,000
Accounts and notes receivable, less allowance for doubtful accounts of \$877,000 (1970 - \$582,000) . .	9,832,000	8,758,000
Income tax refunds receivable (Note 4) . . . . .	1,697,000	—
Platformer construction advances (Note 8) . . . . .	2,335,000	—
Inventories of purchased crude oil, products and merchandise (Note 1) . . . . .	12,083,000	10,031,000
Materials and supplies (Note 1) . . . . .	1,003,000	978,000
Prepaid expenses and deposits . . . . .	1,530,000	1,180,000
	<u>33,419,000</u>	<u>29,020,000</u>
<b>LONG TERM RECEIVABLES AND OTHER ASSETS:</b>		
Notes receivable . . . . .	2,783,000	3,047,000
Other assets and deferred charges . . . . .	469,000	472,000
	<u>3,252,000</u>	<u>3,519,000</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
(Notes 1 and 2) . . . . .	133,420,000	127,850,000
Less - Accumulated depreciation, depletion and amortization . . . . .	35,837,000	35,190,000
	<u>97,583,000</u>	<u>92,660,000</u>
	<u>\$134,254,000</u>	<u>\$125,199,000</u>

APPROVED ON BEHALF OF THE BOARD:

 Director

 Director



## Liabilities

December 31

	<u>1971</u>	<u>1970</u>
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks . . . . .	\$ 5,010,000	\$ 3,500,000
Accounts payable and other accrued liabilities . . .	8,443,000	7,569,000
Accrued taxes . . . . .	2,261,000	1,905,000
Current portion of long term debt (Note 3) . . .	3,598,000	2,409,000
	<u>19,312,000</u>	<u>15,383,000</u>
<b>LONG TERM DEBT (Note 3) . . . . .</b>	<b>40,399,000</b>	<b>37,725,000</b>
<b>DEFERRED CREDITS:</b>		
Deferred production income and other . . . . .	1,432,000	3,500,000
Deferred United States income taxes (Notes 1 and 4) . . . . .	959,000	970,000
	<u>2,391,000</u>	<u>4,470,000</u>
<b>MINORITY INTEREST IN SUBSIDIARIES . . . . .</b>	<b>39,000</b>	<b>33,000</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (Note 5) —		
Authorized —		
5,000,000 Preferred shares of \$20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as \$.70 (U.S.) Non- Cumulative Preferred shares, Convertible Series A		
12,000,000 Common shares of the par value of \$1 (Can.)		
Outstanding —		
1,230,037 Series A Preferred shares . . . . .	24,601,000	24,845,000
7,021,044 Common shares . . . . .	6,517,000	6,087,000
Contributed surplus (Note 5) . . . . .	28,215,000	25,179,000
Retained earnings . . . . .	12,780,000	11,477,000
	<u>72,113,000</u>	<u>67,588,000</u>
<b>COMMITMENTS (Note 8) . . . . .</b>		
	<u>\$134,254,000</u>	<u>\$125,199,000</u>



**TOTAL PETROLEUM (NORTH AMERICA) LTD.**  
AND SUBSIDIARIES  
**Consolidated Statements of Changes**  
**In Financial Position**

(United States dollars)

Year ended December 31

	<u>1971</u>	<u>1970</u>
Financial resources were provided by:		
Operations:		
Net income for the year . . . . .	\$ 2,166,000	\$ 1,841,000
Income charges (credits) not affecting working capital in the period:		
Depreciation, depletion and amortization . . . . .	5,395,000	4,397,000
United States deferred income taxes . . . . .	(11,000)	(184,000)
Working capital provided by operations . . . . .	7,550,000	6,054,000
Sales of future production . . . . .	—	3,765,000
Issue of common shares (Note 5) . . . . .	3,222,000	—
Additional long term borrowings . . . . .	10,140,000	26,183,000
Sales of properties . . . . .	839,000	1,180,000
Other . . . . .	293,000	—
Total financial resources provided . . . . .	22,044,000	37,182,000
Financial resources were used for:		
Capital expenditures —		
Petroleum and natural gas interests and production equipment . . . . .	5,984,000	7,123,000
Refining, marketing and transportation . . . . .	5,003,000	22,131,000
Other . . . . .	170,000	298,000
Long term debt paid or reclassified to current liabilities . . . . .	7,466,000	3,083,000
Reductions of deferred income . . . . .	2,088,000	351,000
Merger expenses . . . . .	—	697,000
Dividends paid . . . . .	863,000	778,000
Other . . . . .	—	372,000
Total financial resources used . . . . .	21,574,000	34,833,000
Increase in working capital . . . . .	\$ 470,000	\$ 2,349,000
Changes in components of working capital:		
Working capital, beginning of year . . . . .	\$13,637,000	\$11,288,000
Increase (decrease) in current assets:		
Cash and short term investments . . . . .	(3,134,000)	928,000
Accounts and notes receivable . . . . .	1,074,000	(2,113,000)
Income tax refunds receivable . . . . .	1,697,000	—
Platformer construction advances . . . . .	2,335,000	—
Inventories . . . . .	2,052,000	1,738,000
Other . . . . .	375,000	178,000
	4,399,000	731,000
(Increase) decrease in current liabilities:		
Notes payable to banks . . . . .	(1,510,000)	1,072,000
Accounts payable and other accrued liabilities . . . . .	(874,000)	233,000
Accrued taxes . . . . .	(356,000)	185,000
Current portion of long term debt . . . . .	(1,189,000)	128,000
	(3,929,000)	1,618,000
Working capital, end of year . . . . .	\$14,107,000	\$13,637,000



TOTAL PETROLEUM (NORTH AMERICA) LTD.  
AND SUBSIDIARIES

## Notes To Consolidated Financial Statements

### 1. ACCOUNTING POLICIES:

The significant accounting policies followed by Total Petroleum and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

**PRINCIPLES OF CONSOLIDATION** — The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements in United States dollars because the majority of the transactions, and the major portion of the working capital and long term debt of the consolidated companies, are in that currency. Canadian assets and liabilities are translated at the rate of exchange in effect at year end except that Property, Plant and Equipment and noncurrent liabilities are translated at the prevailing rates at dates of acquisition. Operating results for the year are translated at the monthly average rate of exchange during the year; depreciation, depletion and amortization included in operating results are translated at historical rates.

**INVENTORIES** of purchased crude oil, products and merchandise are carried at the lower of cost (first-in, first-out) or net realizable value. Materials and supplies inventories are carried at average cost or less.

**PROPERTY, PLANT AND EQUIPMENT** is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. This method has been followed consistently by the Company since 1965 and by subsidiaries since dates of acquisition. Proceeds of disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of the assets.

**INCOME TAXES** — Income taxes included in the consolidated financial statements are computed on the basis of:

- (i) claiming exploration and development expenditures to the extent they are allowable deductions for tax purposes in the year in which they are incurred regardless of the treatment followed in the accounts. (The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants recommends the income tax allocation method of accounting whereby the income tax provision is based on income reported in the accounts. However, management does not consider it appropriate in the particular circumstances of the companies to apply this method to these items. This view is accepted by accounting authorities in the United States and conforms with general practice in the oil and gas industry in Canada);
- (ii) providing deferred taxes for other items under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year is computed on the basis of the depreciation and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.



Investment tax credits, which were not material in 1971 and 1970, are applied as a reduction of income tax expense in the period earned.

EXCISE TAXES collected from customers are excluded from the Consolidated Statements of Income.

PENSION PLANS cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

## 2. PROPERTY, PLANT AND EQUIPMENT:

Property, Plant and Equipment classified by functional groupings is as follows (see also Note 3):

	<u>1971</u>	<u>1970</u>
Petroleum and natural gas interests	\$ 57,944,000	\$ 52,214,000
Production equipment	3,613,000	3,711,000
Refining	17,665,000	20,807,000
Marketing	39,229,000	38,050,000
Supply and Transportation	13,549,000	12,085,000
Other	1,420,000	983,000
	<u>133,420,000</u>	<u>127,850,000</u>
Less, Accumulated depreciation, depletion and amortization *	<u>35,837,000</u>	<u>35,190,000</u>
	<u>\$ 97,583,000</u>	<u>\$ 92,660,000</u>

\*Including accumulated depletion related to petroleum and natural gas interests of \$11,459,000 and \$9,231,000 at December 31, 1971 and 1970, respectively.

## 3. LONG TERM DEBT:

The following summarizes the consolidated long term debt:

Note payable on December 1, 1975 at prime rate plus 1¾% (secured by certain oil and gas properties)	\$10,000,000
Note payable, due in monthly instalments of \$83,000 plus interest at prime rate plus 1% to July 1976 (certain oil and gas properties pledged, subordinated to other debt)	4,516,000
First real estate mortgage notes (lien on acquired property) due in quarterly instalments of \$125,000 from 1973 to 1977 and \$175,000 from 1978 to 1982, at prime rate plus 1%	6,000,000
Notes payable in annual instalments of \$600,000 to March 1, 1977, at 5½%	3,600,000
Term loan, due in quarterly instalments of \$187,500 to October 1, 1973, at prime rate plus ¾%	1,500,000
Note payable on June 30, 1975 (subordinated to other debt) at 12%	4,000,000
Other secured debt, at 4% to 9¾%	13,701,000
Other notes payable, at 6% to 8½%	680,000
	<u>43,997,000</u>
Less, 1972 maturities	<u>3,598,000</u>
	<u>\$40,399,000</u>

Minimum annual maturities of long term debt for the next five years are:

1972 - \$ 3,598,000	1973 - \$4,050,000	1974 - \$3,114,000
1975 - \$17,128,000	1976 - \$2,700,000	

## 4. INCOME TAXES:

At December 31, 1971 Total Petroleum had approximately \$32,900,000 of drilling, exploration and lease acquisition costs and \$3,700,000 of unde depreciated costs remaining to be carried forward (without limit as to time) to be applied against future income for Canadian tax purposes.



If the Company had followed the income tax allocation method of accounting with respect to exploration and development expenditures (Note 1), a deferred tax provision of \$2,296,000 in 1971 and \$461,000 in 1970 would have been charged against income in the respective years and in 1970 a deferred tax provision of \$117,000, related to merger expenses, would have been credited to contributed surplus. The accumulated deferred income taxes at December 31, 1971 would have been increased by \$2,516,000.

Due principally to the deduction for United States income tax purposes of certain exploration and development expenditures, the Company's United States subsidiary will report a loss on its 1971 income tax returns. Such loss will be carried back to prior years in which taxable income was reported and taxes paid in such years will be refunded to the Company.

##### 5. CAPITAL STOCK, CONTRIBUTED SURPLUS AND SHARE OPTIONS:

Changes in issued capital stock and contributed surplus are summarized below:

	<i>Series A Preferred Shares</i>	
	<i>Number of Shares</i>	<i>Par Value</i>
Issued upon the merger with Total Leonard, Inc. at October 2, 1970 . . . . .	1,246,507	\$24,930,000
Conversion to Common shares . . . . .	4,250	85,000
Balance, December 31, 1970 . . . . .	1,242,257	24,845,000
Conversion to Common shares . . . . .	12,220	244,000
Balance, December 31, 1971 . . . . .	<u>1,230,037</u>	<u>\$24,601,000</u>

	<i>Common Shares</i>		<i>Contributed Surplus</i>
	<i>Number of Shares</i>	<i>Par Value</i>	
Balance, January 1, 1970 . . . . .	6,571,957	\$6,079,000	\$25,799,000
Conversion of Series A Preferred shares . . . . .	8,500	8,000	77,000
Expenses of 1970 merger . . . . .	—	—	(697,000)
Balance, December 31, 1970 . . . . .	6,580,457	6,087,000	25,179,000
Redemption of long term debt . . . . .	413,237	403,000	2,797,000
Exercise of stock options . . . . .	2,910	3,000	19,000
Conversion of Series A Preferred shares . . . . .	24,440	24,000	220,000
Balance, December 31, 1971 . . . . .	<u>7,021,044</u>	<u>\$6,517,000</u>	<u>\$28,215,000</u>

Each Series A Preferred share is convertible at any time, at the option of the holder, into Common shares of Total Petroleum at the rate of two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company after December 31, 1975 at \$20 per share.

The following options of officers and employees to purchase Common shares of the Company were outstanding at December 31, 1971:

<i>Granted</i>	<i>Expires</i>	<i>Number of Shares</i>	<i>Option price per Share</i>
July 23, 1968	July 22, 1973	76,800	\$8.16 (U.S.)
January 15, 1969	January 14, 1974	17,350	7.25 (Can.)
March 18, 1969	March 16, 1974	11,600	7.97 (U.S.)
December 4, 1969	January 14, 1974	3,250	7.25 (Can.)
March 31, 1971	March 30, 1976	<u>30,000(1)</u>	6.00 (Can.)
		<u>139,000</u>	

(1) Represent all options granted during 1971.

(2) Options to purchase 39,740 Common shares were cancelled during 1971 due to terminations of employment.

Of the foregoing, 58,500 shares are under option to directors and officers of the Company. All of the outstanding options are exercisable cumulatively during the duration of the options and may be exercised only so long as the holders continue in the employ of the Company.

#### 6. EARNINGS PER SHARE:

Earnings available to Common shares are net income for the year reduced by payments of dividends to the Series A Preferred shareholders. Such payments aggregated \$863,000 in 1971 and \$217,000 in 1970. In addition, pro forma preferred dividends of \$655,000 in 1970, attributable to the period in 1970 prior to the issuance of the preferred shares, are included as if paid.

The weighted average number of Common shares outstanding was 6,826,777 and 6,572,915 in 1971 and 1970, respectively. Common share equivalents (Series A Preferred shares and share options) are anti-dilutive in each of the years presented.

#### 7. PENSION PLANS:

Effective in 1971, the pension plans for employees of Total Leonard, Inc. were revised to become non-contributory, cover additional employees and increase retirement benefits. In connection with these revisions the actuarial assumption for earnings on invested funds was increased from 4% to 5% per annum and the periods for funding of prior service costs were extended by 10 and 18 years.

Pension expense for all plans was \$575,000 in 1971 and \$429,000 in 1970. Unfunded prior service costs aggregated \$2,104,000 at December 31, 1971.

#### 8. COMMITMENTS:

Capitalized long-term lease commitments at December 31, 1971 were approximately \$8,580,000 of which \$5,500,000 relates to a sale-leaseback of a platformer not yet in service at that date. Beginning with the completion of construction and for 15 years thereafter, this lease provides for annual rentals of approximately \$600,000, plus taxes, insurance and other expenses. No gain or loss will be realized as a result of this transaction. Construction costs to December 31, 1971 amounted to \$2,335,000.

Rentals paid, excluding land rents associated with exploration, development and production activities, totalled \$947,000 in 1971 as compared to \$697,000 in 1970. Rental income from lease of service stations to independent operators was \$1,458,000 in 1971 and \$485,000 in 1970.

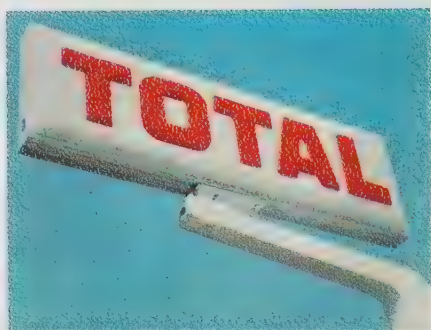
#### 9. STATUTORY INFORMATION:

The total direct remuneration of directors and officers of the Company in 1971 was as follows:

	<i>Directors</i>		<i>Officers</i>		<i>Officers who are also Directors</i>
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	
Total Petroleum (North America) Ltd. . . .	11	\$17,500	6	\$133,900	2
Total Leonard, Inc. . . . .	—	—	4	178,600	2
	<u>11</u>	<u>\$17,500</u>	<u>10</u>	<u>\$312,500</u>	<u>4</u>









AR09

**Consolidated Statement of Income**

(United States Dollars)

	<i>Six Months Ended June 30</i>	
	<u>1971</u>	<u>1970</u>
REVENUE:		
Sales and other income .....	\$44,173,000	\$36,804,000
COSTS AND EXPENSES:		
Purchased crude oil, products and merchandise .....	\$28,464,000	\$21,456,000
Operating expenses ....	5,973,000	5,685,000
Marketing & Administrative expenses ....	6,343,000	5,926,000
Depreciation, depletion and amortization ...	2,527,000	2,016,000
Interest .....	1,604,000	840,000
United States income taxes .....	(1,502,000)	161,000
	<u>\$43,409,000</u>	<u>\$36,084,000</u>
Net income for the period .....	<u>\$ 764,000</u>	<u>\$ 720,000</u>
Earnings per common share .....	<u>\$ .05</u>	<u>\$ .04</u>

**NOTE:**

Earnings per common share are computed on the weighted average of the Common Shares outstanding during each six month period, being 6,631,065 and 6,571,957 shares during the 1971 and 1970 periods, respectively. The amount of earnings available to the common shareholders is the net income for the period reduced by the dividends paid (or which would have been paid in 1970) to the holders of the Series A Preferred shares. Dividends to the Series A Preferred shareholders were at the rate of 35 cents per share in each of the reported periods, or \$433,000 and \$436,000, respectively. Full conversion of the Preferred shares into common shares would not have diluted earnings per common share in either period.

The financial statements include all normal adjustments and accruals, but are unaudited.

*Lib*

**TOTAL PETROLEUM  
(NORTH AMERICA) LTD.**

**TOTAL****INTERIM REPORT**

SIX MONTHS ENDED JUNE 30

1971



## *To The Shareholders:*

This report summarizes the activities of your Company during the first six months of 1971. Net income increased to \$764,000 from \$720,000 during the first half of last year. Earnings were affected adversely during the second quarter by severe retail gasoline price wars.

### **PRODUCTION**

Crude oil and condensate production resulting from the combined operations of your Company and its subsidiaries during the first six months of this year amounted to 801,632 barrels (4,429 barrels per day) representing an increase of  $11\frac{1}{2}\%$  over the comparative total of 717,476 barrels (3,964 barrels per day) for the first half of last year. Natural gas sales increased by 15% to an average of 11,001 Mcf per day compared with 9,574 Mcf per day during the first half of 1970.

### **EXPLORATION**

Your Company's exploratory program during the first half of this year consisted chiefly of participation in geological and geophysical surveys and other preliminary work preparatory to drilling operations (both onshore and offshore) scheduled for the second half of the year. Included in that program are at least two exploratory wells on offshore permits comprising approximately 33 million acres situated along the east coast of Newfoundland in which your Company holds a 5% interest. Drilling operations are now in progress at the first of these locations (Tenn. et al Leif P-48) at a water depth of approximately 560 feet.

Other areas of planned exploratory drilling in which your Company will be engaged during the coming months include the Banks Island region of the Canadian Arctic, the Grassy Creek area of northeast British Columbia and the Gilby area of south central Alberta. In addition, your Company's holdings will be evaluated by farm-out wells to be drilled by other companies in the Keele River region of the Northwest Territories, the Kakwa area of eastern British Columbia, and (depending upon the results of seismic surveys currently being conducted) in the Grande Prairie region of western Alberta.

During the period under review your Company has been actively engaged in land acquisition and seismic participation in the Michigan Basin

of the United States and present plans call for a continuation of this program during the second half of the year, with support being provided to competitor exploratory drilling where adjacent to Total's land.

Subsequent to the Atkinson oil discovery by Imperial Oil Enterprises Ltd. in early 1970, a continuing high level of interest has been maintained in the Mackenzie Delta region of the Northwest Territories by the recent announcements of two additional discoveries in the area, also by Imperial. A map of the Mackenzie Delta region, and the Tuk Peninsula, showing your Company's land holdings in this highly prospective region, is incorporated with this report.

### **MARKETING**

During the first six months of 1971, sales of refined products increased by 1,396,166 barrels, or about 24% over the same period in 1970. Gasoline sold through the 142 stations acquired last December in the Detroit area accounted for much of this increase. Sales of aviation fuel, residual fuel oil and heating oil also advanced.

"TOTAL", your company's new brand name, was successfully introduced in Detroit on April First. The "Leonard" brand is now being replaced by "TOTAL" throughout Michigan and the changeover will be completed by the end of August 1971. The new name and the "TOTAL" advertising and sales promotion program have been received with enthusiasm by our dealers and jobbers. More importantly, increases in station volumes attest also to customer enthusiasm for "TOTAL" products and service. An important part of the changeover and promotion of "TOTAL" was a very successful credit card solicitation program which substantially increased the number of "TOTAL" travel card customers.

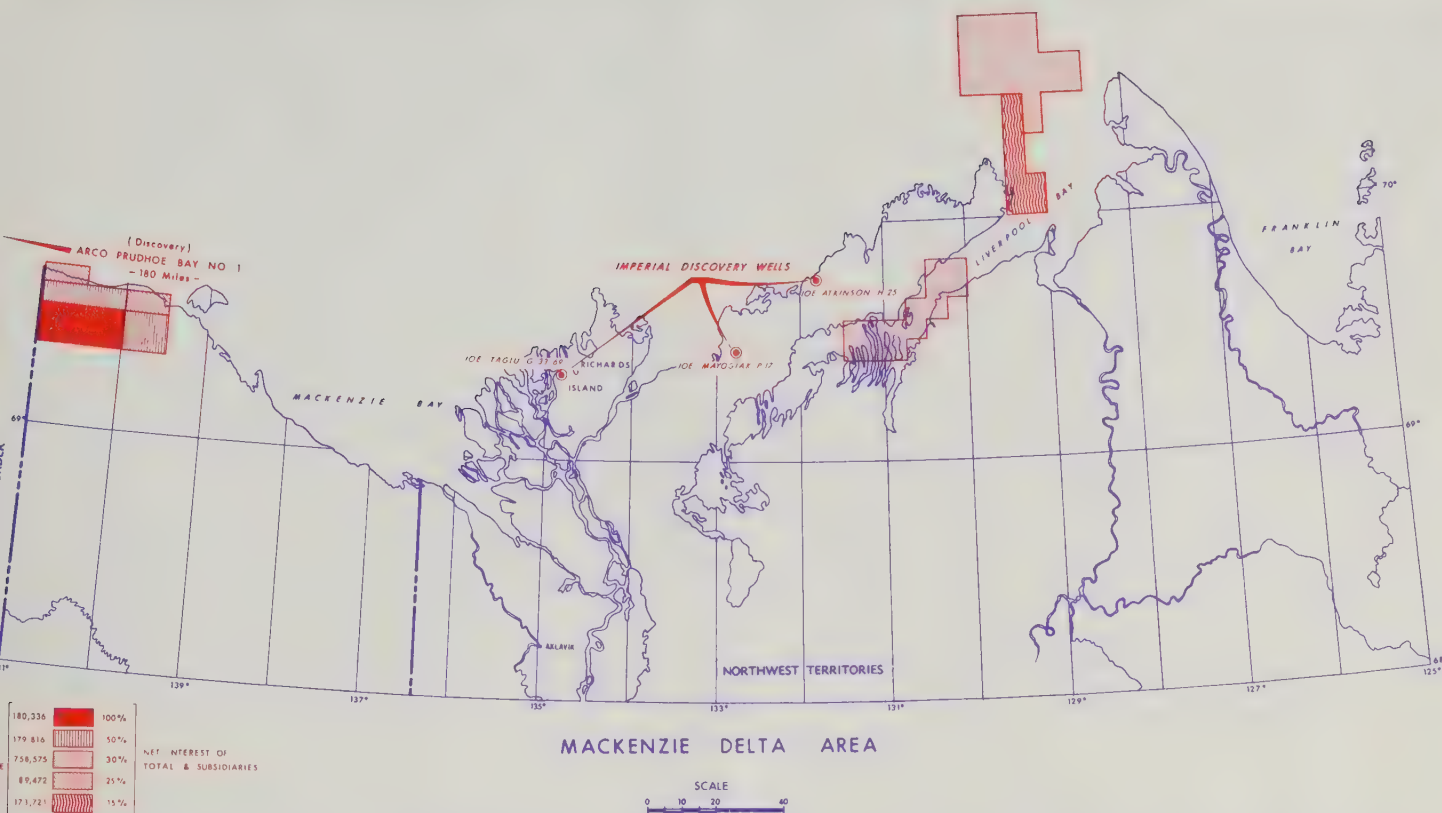
Gasoline price wars continue to plague the industry and your Company and have increased in severity over the past 6 months. The cost of these price wars to the Company was more than \$4,500,000 during the first 6 months of 1971.

The reservoir of the world's largest pumped storage hydroelectric power plant is under construction on the shore of Lake Michigan near Ludington, Michigan. That reservoir will be lined with more than 200,000 barrels of asphalt supplied by your Company.

### **REFINING**

Refining operations for the six months were normal. 5,495,107 barrels of crude oil were





processed as compared to 5,274,814 barrels in the first six months of 1970.

Plans were made several months ago to discontinue operations at the small Mt. Pleasant refinery. The plant was closed in July 1971 and negotiations for the sale of the machinery and equipment located there should be complete soon. The Mt. Pleasant operation was a specialty plant, producing certain petrochemicals, so the closing will not affect the Company's crude oil refining operations.

At the Alma refinery, site preparation for the new Platformer is complete. Actual construction began in July for completion by late spring of 1972. The Platformer will increase production of high octane gasoline, closing the gap between sales demand and present production capacity, and giving your Company the increased gasoline octane qualities required for the low-lead or lead-free gasolines that will be needed in the future.

Capital expenditures at the Company's Detroit products terminal will increase its storage capacity and transport loading speed and will provide connections to the Wolverine, Buckeye and Sun products pipe line systems.

The quota for importation of Canadian crude

oil granted to the Company for the year of 1971 was insufficient. A hearing with the Oil Import Appeals Board is set for August 16, in order to petition for additional Canadian crude oil to keep refinery operations at capacity.

## FINANCIAL

After deduction of two 17½ cents per share dividends paid to the holders of Series A Preferred shares, income available to the common shareholders was 5 cents per share in the first half of 1971, compared with 4 cents per share in the same period of 1970.

On July 6, 1971 your Company issued an additional 413,237 common shares to the Citrin interests to acquire the outstanding first real estate mortgage note for \$3,200,000 given by the Company's subsidiary, Metro Oil Co. in partial consideration for the purchase of land, service stations and other properties in the Detroit area in December, 1970.

## GENERAL

Your Company's management is very concerned about the product pricing practices of our competitors — particularly in Detroit, Michigan.

The year 1971 has so far been marked by gasoline price wars of increasing severity. Gasoline prices which range from 39.9¢ per gallon to 19.9¢ per gallon in a very short period of time mislead the average consumer to believe that gasoline is a very high profit product. Price decreases are forgotten and price restorations are decried as inflationary. On July 27, 1971 prices were restored to normal levels throughout the country by a major oil company. Other companies have followed suit and it is imperative that the industry be more responsible, emphasizing profits rather than volume.

Submitted on behalf of the  
Board of Directors.



REID BRAZELL,  
Chairman of the Board.

August 20, 1971.

#### Operating and Land Data

	Six Months Ended June 30	
	1971	1970
Crude oil and condensate production (bbls.)	801,632	717,476
Average bbls. per day	4,429	3,964
Natural gas sales Mcf)	1,991,204	1,733,003
Average Mcf per day	11,001	9,574
Refined product sales (bbls.)	7,277,714	5,881,548
Crude oil refined (bbls.)	5,495,107	5,274,814
Gross land holdings (acres)	38,088,157*	101,942,286
Net land holdings (acres)	4,306,765*	8,786,407

\*This substantial decrease was attributable primarily to the conversion of the Company's holdings of over four million net acres of permits in the Hudson Bay area from a working interest to a gross overriding royalty interest during 1970.

#### Consolidated Statement of Source and Disposition of Working Capital

(United States Dollars)

Six Months Ended  
June 30

1971 1970

#### SOURCE:

Net income for the period	\$ 764,000	\$ 720,000
Add or (deduct):		
Depreciation, depletion, and amortization	2,527,000	2,016,000
United States deferred income taxes	20,000	(30,000)
Funds obtained from operations	\$ 3,311,000	\$ 2,706,000
Proceeds from sale of future production	—	61,000
Reductions of deferred income	(1,181,000)	(6,000)
	\$ 2,130,000	\$ 2,761,000
Additional long-term borrowings	2,006,000	4,683,000
Sales of properties	345,000	242,000
Issuance of common stock	3,200,000	—
Other	(16,000)	67,000
Total Source of Funds	\$ 7,665,000	\$ 7,753,000

#### DISPOSITION:

Capital expenditures	\$ 4,171,000	\$ 5,005,000
Long-term debt paid or reclassified to current liabilities	4,755,000	1,566,000
Dividends paid:		
On Series A preferred shares	433,000	—
On shares of Leonard Refineries, Inc., prior to merger	—	374,000
Other	(372,000)	484,000
Total disposition of funds	\$ 8,987,000	\$ 7,429,000
Increase (decrease) in working capital during period	(\$ 1,322,000)	\$ 324,000
Working capital, beginning of period	13,637,000	11,288,000
Working capital, end of period	\$12,315,000	\$11,612,000





RESEARCH DEPARTMENT

AR09

## Grant Johnston LIMITED

MEMBER: MONTREAL STOCK EXCHANGE • THE TORONTO STOCK EXCHANGE  
CANADIAN STOCK EXCHANGE • INVESTMENT DEALERS' ASSOCIATION OF CANADA

MONTREAL: TELEPHONE 866-7544

TORONTO: TELEPHONE 360-6250

April 29, 1971

TOTAL PETROLEUM (NORTH AMERICA) LTD.  
(Retail Summary)MARKET DATA

Listed: TPN on Toronto, Montreal and American Exchanges

	Common	Preferred (1)
Market Prices: 1971	\$7.85 to \$6.00	\$16 $\frac{3}{4}$ -14 $\frac{7}{8}$
Current	\$7.00	\$16 $\frac{1}{8}$
Earnings: 1970 Actual	\$0.15 U.S.	-
1971 Est.	\$0.23	-
Cash Flow: 1970 Actual	\$0.82	-
1971 Est.	\$1.05	-
Price to Est. 1971 Cash Flow:	6.7	-
Dividend:	Nil	\$0.70
Yield:	Nil	4.3%

(1) Each preferred is convertible into two common.

COMMENT

Both the Total common and preferred stocks can be recommended for the following reasons:

1. The stock is trading at 26% below our estimated asset value of \$9.50 per share at a time when most western oils are trading above asset value.
2. The merger of French Petroleum Company of Canada and Leonard Refineries of Michigan makes an attractive integrated oil company with a substantial cash flow.
3. The Company has an interest in attractive frontier acreage in the northern Yukon, Mackenzie Delta, and off the east coast of Labrador. Two wells will be drilled on the offshore Labrador acreage this summer. These wells will focus attention on Total.

.....





DISCUSSIONThe Company

Total Petroleum (North America) Ltd. was formed by the merger of French Petroleum Company of Canada Ltd. and Leonard Refineries, Inc. of Alma, Michigan. Both companies were subsidiaries of Compagnie Francaise de Petroles (CFP) and the new company is owned approximately 45% by CFP. French Petroleum was engaged in producing and exploration in Canada while Leonard had a refining and marketing facility in northern Michigan. The merger will allow otherwise taxable refining and marketing profits to be applied to Canadian exploration, essentially eliminating all corporate income tax.

Total now has 4200 net equivalent barrels of oil per day production and a good spread of Canadian exploratory acreage. The Company has been refining and marketing about 30,000 barrels per day and has just acquired a significant marketing position in the Detroit area.

Capitalization

The capitalization at December 31, 1970 was as follows:-

	Millions \$'s	Percent
Long Term Debt	37.7 )	38.5%
Deferred Credits	4.5 )	
Series A Preferred Shares (1,242,257 o/s)	24.8 )	22.6
Common Shares (6,580,457 o/s)	6.1 )	5.5
Retained Earnings & Contributed Surplus	36.7 )	33.4
	109.8	100.0%

The parent (CFP) holds approximately 45% of the common and 38% of the preferred shares outstanding. The Series A shares are entitled to one vote per share and a non-cumulative preferential dividend of \$0.70 U.S. Assuming full conversion, then CFP would hold 43.2% of the 9 million shares outstanding.

Estimated Asset Value

We estimate the asset value of Total as follows:-

	Millions \$'s	\$'s per Share
Reserves	34.2	5.20
Exploratory Acreage	19.1	2.90
Refining and Marketing	59.2	9.00
Less Balance Sheet (Debt, etc.)	25.1	3.82
Less Preferred Stock	24.8	3.78
Total	62.6	9.50

The value per share is based on 6.58 million shares outstanding. Full conversion of the preferred is slightly anti-dilutionary as the asset value per share increases to \$9.65 per share.

.....







It can be seen that less than half of the asset value is in reserves and exploratory acreage, and the remainder is in refining and marketing. Our valuation of \$9.50 per share is considered to be a realistic estimate of the fair market price that another company engaged in the same business could pay for Total.

#### Forecast Earnings & Cash Flow

Actual and forecast cash flow and net income data is summarized below:-

	<u>1970</u>	<u>1971</u>	<u>1972</u>
	<u>Actual</u>	<u>Forecast</u>	<u>Forecast</u>
Cash Flow Available for Common (\$000's)	5368	6900	8400
Net Income Available for Common (\$000's)	971	1500	2600
Cash Flow per Share (\$'s)	0.82	1.05	1.28
Net Income per Share (\$'s)	0.15	0.23	0.39

Cash flow and net income is calculated after preferred dividends. Total management is expecting much higher cash flow and earnings in 1971 and 1972. First quarter 1971 results just released reported net income before provision for preferred dividend of \$907,000 vs. \$307,000 a year ago.

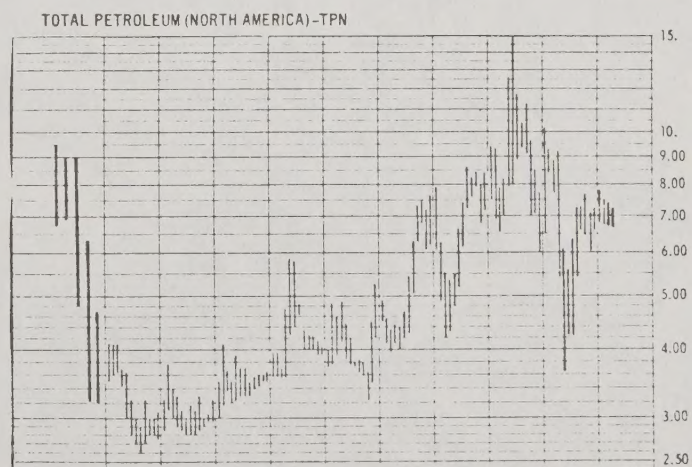
#### Historical Market Data

The stock is cheap at current market price as the price to estimated 1971 cash flow multiple is only 6.7 compared to a five year historical multiple of 14.1. The stock is also cheap in terms of fundamental value as it trades 26% below asset value while the TSE Western Oil Index is currently trading 20% above asset value and at a cash flow multiple of 13.

#### Technical Data

The stock traded briefly at \$14 $\frac{7}{8}$  at the height of the 1969 bull market. It then settled back to around \$7 and moved on news of Imperial Oil's Atkinson Point discovery in the Mackenzie Delta. The stock has not moved up in the present oil market. The chart suggests that there is limited downside risk at the current price of \$7.

Chart - courtesy of Graphoscope



J. D. Mote



